

Fairfax County Uniformed Retirement System

A Pension
Trust Fund of
Fairfax County
Virginia



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 1999

Produced by the Fairfax County Retirement Administration Agency

10680 Main Street ~ Suite 280 ~ Fairfax, Virginia 22030

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FAIRFAX
COUNTY

BOARD OF TRUSTEES
UNIFORMED RETIREMENT SYSTEM
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Fairfax, Virginia 22030-3812

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V I R G I N I A

December 30, 1999

Dear Members of the Board of Trustees:

We are pleased to submit to you the annual report of the Fairfax County Uniformed Retirement System ("System") for the fiscal year ended June 30, 1999. We hope this annual report will aid in understanding the structure and evaluating the status of the System. The System's management is responsible for the accuracy of financial information contained herein.

The annual report for fiscal year 1999 consists of five sections: an Introductory Section which contains this transmittal letter along with the organization structure and review of plan provisions; a Financial Section which contains the opinion of the independent auditors, the financial statements of the System and required supplementary information; an Investment Section which contains investment results; the Actuarial Section which contains the independent actuary's certification letter, a summary of the results of the actuarial valuation, and actuarial procedures and assumptions; and the Statistical Section which contains information regarding the System membership.

History

The Fairfax County Uniformed Retirement System was established on July 1, 1974, as a public employee retirement system providing defined benefit pension plan coverage for uniformed or sworn employees of the Fire and Rescue Department, helicopter pilots, the Sheriff's Department, the Department of Animal Control and certain park police officers. There were 1,577 active members and 582 retirees participating in the System as of June 30, 1999.

Benefit Provisions

The benefit provisions of the System are established by County Ordinance. The System provides normal service retirement and early service retirement benefits for members who attain age or service requirements. Coverage for service-connected disability benefits is immediate upon membership in the System. Ordinary (non-service related) disability benefits are provided after the attainment of five years of service. Members are vested after five years of service and are eligible for the benefits at the early or normal service retirement date.

INTRODUCTORY SECTION

Capital Markets, Economic Conditions and Outlook

Fiscal-Year 1999 Review

Fiscal-year 1999 ending June 30, turned out to be another stellar year for equity markets worldwide, but a lackluster year for fixed-income markets. The S&P 500 Index advanced 22.8%, marking the eleventh consecutive fiscal year of positive returns for the Index and an unprecedented fifth consecutive year of 20+% growth. US equity returns were again by far the best performer among major asset classes. The S&P 500 Index return was 7 times greater than the 3.1% return of the Lehman Brothers Aggregate Bond Index, and nearly tripled the 7.9% rate achieved by the MSCI EAFE Index, the leading equity index of international developed markets.

Despite the good returns of the S&P 500 Index, fiscal 1999 was a particularly bumpy road for equity markets. Fiscal 1999 started off with the broad market hitting record highs in mid-July, only to plunge sharply through the end of August, 1998, losing nearly 20% of value within two months. This correction was triggered by Russia's debt default and currency devaluation, which produced much panic selling and large losses for several US-based hedge funds, brokers and bankers. The Federal Reserve intervened with three quick actions to drop short-term interest rates 75 basis points to 4.75%. These actions served to calm worldwide concerns about recession and a credit crunch in capital markets, restored liquidity to credit markets and confidence among consumers, and allowed capital markets to rebound beyond pre-correction levels by the end of December. The S&P 500 Index recovered 21.3% during the fiscal second quarter. More "normal" gains of 5.0% and 7.0% ensued in the final two quarters of fiscal 1999. Altogether, the S&P 500 Index rose or fell more than 1.0% on a record 103 days of the year, underscoring the market's growing volatility.

Gains in 1999 were once again concentrated in the largest of the S&P 500 Index stocks, capping the fifth consecutive year that large-capitalization stocks have outperformed small-cap stocks. The small-cap sector, as measured by the Russell 2000 Index, gained only a stingy 1.5%, underperforming the S&P 500 Index by a huge 21.3 percentage points. "Growth" stocks outperformed "value" stocks across all capitalization ranges. Value investment managers were severely challenged to beat the market averages during fiscal 1999. Among industrial sectors, technology stocks were by far the primary driver of stock returns in all equity markets. Leadership within the stock market was once again very narrowly defined. The top ten stocks in the S&P 500 Index were all "growth" stocks, and represented 45% of the Index's positive return. This dominance of a handful of growth stocks masked the reality that 70% of the stocks in the S&P 500 Index actually trailed the Index for the year.

International developed markets achieved moderately favorable returns, as the MSCI Europe, Australia and Far East Index rose 7.9% for the year, despite an ongoing recession in Japan and a slowdown in many European economies. Emerging markets staged a strong rebound in price and confidence after the economic and currency crisis experienced in 1998. The MSCI Emerging Markets Free Index jumped 28.7%, recovering most of the year earlier's 39% fall.

Economic conditions in fiscal 1999 generally bolstered equity markets but served to keep a lid on expectations regarding the attractiveness of fixed-income markets. This positive environment for equities was supported by persistent economic growth, as the Gross Domestic Product for the nation grew at an above-average 3.8% for the year, on top of last year's 3.6% growth. Consumer spending was the main driver of economic growth, which was buoyed by ebullient consumer confidence. Strong corporate profits fueled continued business expansion which resulted in tremendous new job creation and a twenty-five year low in unemployment (4.2%). Despite moderately rising interest rates, technology-induced productivity gains again constrained inflation to below 2% over the twelve-month period.

Most of the economic indicators that equity investors construed favorably were viewed with concern by fixed-income investors. The consumer-driven economic growth was viewed as “overheated”, rising manufacturing rates were seen as leading to higher commodity prices, and rising employment and wage gains were believed to lead to inflating consumer prices. Compounding these concerns was constant rhetoric from Alan Greenspan, Chairman of the Federal Reserve, threatening to reign in “runaway” economic growth by raising short-term interest rates. The combined fear of rising inflation and Federal Reserve threats to raise interest rates kept many fixed-income investors on the sidelines just at the time when corporate America was coming to the market with record debt issuance to keep the economic infrastructure expanding. Consequently, the bellwether 30-year Treasury Bond Index yield drifted upwards 40 basis points from 5.6% at the beginning of the year to 6.0% by the end of fiscal 1999. Given this interest-rate environment, the benchmark Lehman Brothers Aggregate Bond Index’s annual return was held to 3.1%.

System

Within this volatile capital market environment the System’s investments advanced 10.0% for the fiscal year of 1999. This achievement was below the heady 16.7% and 17.7% gains of the prior two years, but ahead of the System’s target 7.5% assumed actuarial rate of return. The market value of the System’s assets increased 10.7%, from \$558.6 million on June 30, 1998, to \$618.4 million on June 30, 1999. At year-end 1999, the System’s investments were allocated as follows: Domestic and international equities – 59% and Fixed-income securities – 41%. Derivatives represented 17.3% of the investment portfolio by market value, consisting primarily of triple A-rated collateralized mortgage obligations. These securities were not of the speculative or leveraged variety.

Outlook

Looking forward to fiscal-year 2000, the economy is expected to exhibit strong momentum through the first half of the year, with some moderation of growth in the second half. Fiscal first-quarter 2000 Gross Domestic Product has been estimated at a stronger-than-expected 4.8%, proving that the summer slowdown was not as tepid as usual. Strong consumer and corporate spending have combined to fuel this acceleration. In addition, the manufacturing sector is awakening from its slumber and inventory rebuilding is replenishing the nation’s stock of goods. Exports are starting to rise as global economies shake-off their economic malaise and absorb greater capital investment. Domestically, both consumers and corporations are expected to pause for a breather toward the end of the fiscal second quarter as the world waits to see what surprises Y2K has in store for us.

So far during this extended bull market run, technological improvements have boosted productivity gains in line with rising costs, thus keeping inflation in check with little price and cost increases. As fiscal 2000 unfolds, we would expect to see inflation pick up as commodity prices rise with surging global activity, and import prices rise as the US dollar weakens. Domestically, rising manufacturing output and tight labor markets are expected to exert greater upward pressure on prices. Not all corporate cost increases will be passed on, resulting in margin and earnings compression for corporate America.

The Federal Reserve has now tightened short-term interest rates 3 times in the last six months, taking back its 1998 rate reductions and restoring monetary policy to its 1997 pre-crisis equilibrium. These actions have stifled the fixed-income markets, moderated real estate construction, and are expected to slow the economy’s momentum in the second half of fiscal-year 2000. Many analysts are expecting GDP growth to return to a more-normal 2.5% - 3.0% range.

INTRODUCTORY SECTION

We expect that the trend of increasing volatility in capital markets is likely to continue. The bull market, which began nine years ago in October 1990, has pushed the S&P 500 Index up 365% on a price-only basis, or 19.1% annualized. This performance is clearly unsustainable. The two periods in history most closely resembling the current bull-market period ended in the Great Depression in 1929, and the crash of 1987. Clearly, we would at least expect to see a gravitation toward the historic annual average market return of 11.3%, and a down year would not be totally unexpected.

The System's investments continue to be well-positioned and diversified. Any short-run downturn in the bond and equity markets would not have a material effect on the funded status of the System.

Financial Highlights

Internal and Budgetary Controls

The System's management is responsible for maintaining internal accounting controls to provide reasonable assurance that transactions are properly authorized and recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles. We believe the internal controls in effect during the fiscal year ended June 30, 1999, adequately safeguard the System's assets and provide reasonable assurance regarding the proper recording of financial transactions. In addition, the budget for the System is annually presented to and approved by the Board of Trustees and the County's Board of Supervisors.

Additions

The primary sources of additions for the System include member and employer contributions as well as net investment income. Total contributions and net investment income for fiscal year 1999 totaled \$75.1 million, a decrease of \$23.8 million versus fiscal year 1998.

Table 1. Contributions and Investment Income

	<u>FY 1999</u> <u>(millions)</u>	<u>FY 1998</u> <u>(millions)</u>	<u>Increase/</u> <u>(Decrease)</u> <u>Amount</u>	<u>Increase/</u> <u>(Decrease)</u> <u>Percentage</u>
Employer Contributions	\$15.6	\$16.6	\$(1.0)	(6.0)%
Member Contributions	5.7	5.1	0.6	11.8%
Net Investment Income	<u>53.8</u>	<u>77.2</u>	<u>(23.4)</u>	<u>(30.3)%</u>
	\$75.1	\$98.9	\$(23.8)	(24.0)%

Contributions

Contributions from Fairfax County decreased 6.0% from the prior year and produced 20.8% of total additions. The decrease in employer contributions was attributable to a decrease in the employer contribution rate from 22.18% of payroll in FY 1998 to 19.90% in FY 1999. This decrease was possible due to the strong investment gains of recent years which led to a decline in the amount required to amortize unfunded liabilities. Member contributions increased 11.8% over the prior year due to the higher payroll base, contributing 7.6% to total additions.

Investments

The net investment income portion of total additions decreased by \$23.4 million or 30.3% in fiscal year 1999. Dividend and interest income decreased by \$0.1 million or 0.5%. Realized and unrealized gains on investments decreased \$23.3 million or 38.5%. The market value of net assets increased to \$618.4 million from \$558.6 million.

Deductions

The deductions from the System include the payment of retiree and beneficiary payments, the refund of employee contributions to former members and administrative expenses. Deductions for fiscal year 1999 totaled \$15.3 million, an increase of \$2.1 million or 15.9% over the prior fiscal year.

Table 2. Deductions by Type

	<u>FY 1999</u> <u>(millions)</u>	<u>FY 1998</u> <u>(millions)</u>	<u>Increase/</u> <u>(Decrease)</u> <u>Amount</u>	<u>Increase/</u> <u>(Decrease)</u> <u>Percentage</u>
Benefits	\$14.5	\$12.4	\$2.1	16.9%
Refunds	0.6	0.6	—	—
Administrative Expenses	<u>0.2</u>	<u>0.2</u>	<u>—</u>	<u>—</u>
	\$15.3	\$13.2	\$2.1	15.9%

The increase in benefit payments to \$14.5 million was mostly due to an increase in the number of retirees. The number of retirees and beneficiaries increased to 582 at June 30, 1999 from 518 a year earlier. Retirees also received a 2.6% cost-of-living increase effective July 1, 1999.

Funded Status

An actuarial valuation of the System to determine funding requirements is performed annually. The System's funding policy provides for periodic employer contributions at actuarially determined rates which will remain relatively level over time as a percentage of payroll and will accumulate sufficient assets to meet the costs of benefit payments when due. The valuation of the System performed as of July 1, 1998 indicated that the ratio of actuarial assets accumulated by the System to total actuarial accrued liabilities for benefits increased from 96.8% to 99.4%.

The Actuarial Section contains further information on the results of the July 1, 1998 valuation.

Investment Policies and Strategies

The Board of Trustees has an adopted Statement of Investment Objectives and Policy. This Statement establishes the investment goals, guidelines, constraints and performance standards the Trustees will use when exercising its fiduciary duties to manage the investment assets of the System. The Board operates in conformity with the standard of care required in making investments as stated in the Code of Virginia §51.1-124.30.C.

INTRODUCTORY SECTION

The Board receives quarterly reporting from staff and the System's investment consultant, BARRA/RogersCasey Consulting, Inc. to ensure compliance with its stated objectives and policy. BARRA/RogersCasey also monitors the performance of the System and its investment managers; rate of return information is included in the Investment Section.

Securities of the System except for mutual funds and a short-term investment fund are held by State Street Bank and Trust Company, as agent, in the System's name. State Street Boston Corporation, the parent company, carries Financial Institution Bond insurance coverage including a Computer Crime Policy. An additional Excess Securities policy covers all risk of physical loss to securities.

Other Information

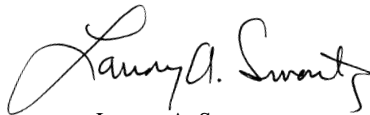
Independent Audit and Actuarial Certifications

An independent auditors' report and certifications from the actuary are included in this report.

Acknowledgements

The annual report of the Uniformed Retirement System was prepared by the System's staff under the leadership of the Board of Trustees. I would like to thank the staff who have worked hard throughout the year to ensure the successful operation of the System. This report is intended to provide complete and reliable information for determining the financial status of the System. It is being submitted to the Board of Supervisors and other interested parties.

Respectfully submitted,



Laurnz A. Swartz
Executive Director

INTRODUCTORY SECTION

BOARD OF TRUSTEES

Littell G. McClung

Chairman

Retired

Board of Supervisors Appointee

Term Expires: July 2, 2002

Sgt. Charles E. Formeck

Vice Chairman

Office of the Sheriff

Member Trustee

Term Expires: October 30, 2001

Susan S. Planchon

Treasurer

Fairfax County Director of Finance

Ex officio Trustee

Vincent J. Bollon

International Association of Firefighters

Board of Supervisors Appointee

Term Expires: August 31, 2000

Lt. Harry E. Scott

Fairfax County Fire & Rescue Department

Member Trustee

Term Expires: June 30, 2000

Pamela S. Davis

Teacher, Fairfax County Public Schools

Board of Supervisors Appointee

Term Expires: June 30, 2002

Adam K. Thiel

Fairfax County Fire & Rescue Department

Member Trustee

Term Expires: June 2, 2002

Peter J. Schroth

Fairfax County Personnel Director

Ex officio Trustee

INTRODUCTORY SECTION

ADMINISTRATIVE ORGANIZATION

Administrative Staff

Laurnz A. Swartz
Executive Director

Jeffrey A. Willison
Investment Manager

Don A. McCorry
Retirement Administrator

Professional Services

Actuary

Milliman & Robertson, Inc.
Actuaries
Vienna, VA

Auditor

KPMG LLP
Certified Public Accountants
Washington, DC

Investment Managers

Credit Suisse Asset Management
New York, NY

Barclays Global Investors
San Francisco, CA

Lazard Asset Management
New York, NY

J. L. Kaplan Associates
Boston, MA

Payden & Rygel Investment Counsel
Los Angeles, CA

Marathon-London
London, England

ZAK Capital
Minneapolis, MN

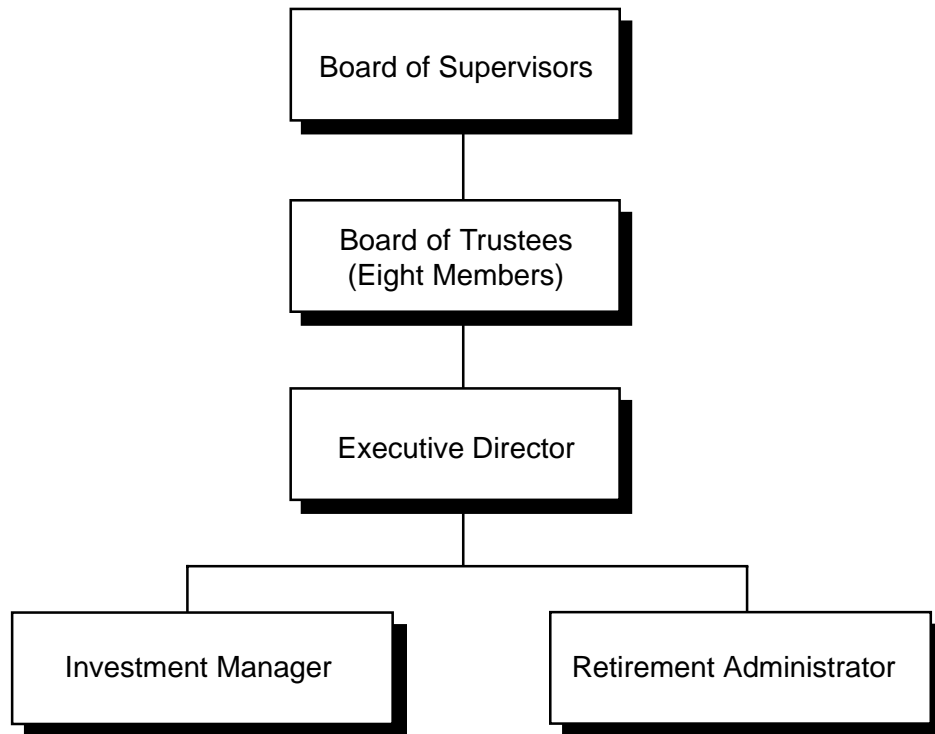
Investment Consultant

BARRA RogersCasey
Darien, CT

Custodial Bank

State Street Bank and Trust Company
Boston, MA

ORGANIZATIONAL CHART



INTRODUCTORY SECTION

SUMMARY OF PLAN PROVISIONS

Membership in the Fairfax County Uniformed Retirement System includes most uniformed or sworn employees of the Fire and Rescue Department, the Sheriff's Department, the Department of Animal Control, helicopter pilots and former park police officers who elected to remain in the System rather than transfer to the Police Officers Retirement System. The System consists of four Plans, Plan A, Plan B, Plan C, and Plan D which have different employee contribution rates and slightly different benefits. Plan A members were given the opportunity to join Plan B as of July 1, 1981 and to enroll in Plan C as of April 1, 1997. From July 1, 1981, until March 31, 1997, all members were enrolled in Plan B. Plan B members were given the opportunity to enroll in Plan D as of April 1, 1997. From April 1, 1997, forward, all new members are enrolled in Plan D. However, previous members of the Fairfax County Uniformed Retirement System who left their money in the system when their employment was terminated, upon return to service, must rejoin the plan that they were in during their previous period of membership.

The general provisions of the Uniformed Retirement System are as follows:

All Plans

Normal Retirement: is either age 55 with at least 6 years of service or 25 years of service (including sick leave).

Early Retirement: 20 years of service (including sick leave). Reduction factors are applied to the basic formula for early retirement.

Deferred Vested Retirement: is available for vested members (vesting is at 5 years of creditable service) who leave their contributions in the System when they terminate. These members are entitled to their normal retirement benefit based on service with the County at age 55.

Service-Connected Disability Retirement: is available for members, regardless of their length of service, who become disabled as a result of a job-related illness or injury. Benefits are 40% of their final compensation less workers' compensation and 64% of any Social Security award. Benefits for members retired on a severe service-connected disability will be calculated at 90% of salary at time of retirement less the average monthly workers' compensation benefit and 64% of any Social Security disability benefits.

Ordinary Disability Retirement: is available for vested members who become disabled due to an injury or illness that is not job-related. Normal retirement benefits are paid.

Death Benefits: *Before Retirement* — If the member is vested and the spouse is the beneficiary, the spouse may elect to receive 50% of the normal retirement benefit earned as of the date of the member's death. This benefit ceases if the spouse remarries before age 60. If this benefit is not elected, a refund of the member's contributions and interest is payable to the named beneficiary.

After Retirement — Refunds of any of the member's contributions and interest not already paid out in benefits will be paid to the named beneficiaries unless the member has elected the irrevocable Joint and Last Survivor Option which provides a benefit to the member's spouse for life. At retirement, the member may choose to have his spouse receive 50%, 66 $\frac{2}{3}$ %, 75% or 100% of the member's reduced annuity upon the member's death. The member's annuity is reduced by a percentage based on the difference in age between the member and his or her spouse. If the spouse pre-deceases the member, the annuity is restored to what it would have been if this option had not been elected.

SUMMARY OF PLAN PROVISIONS

(Continued)

Service-Connected Death Benefit — A \$10,000 lump-sum payment is made to the beneficiary if the member's death is due to a job-related illness or injury.

Normal Retirement Benefit: (Plan A or Plan B) 1.8% of average final compensation (highest consecutive three years) up to the Social Security Breakpoint times creditable service plus 2% of average final compensation which exceeds the Social Security Breakpoint times creditable service. The benefit is then increased by 3%. The Social Security Breakpoint is an average of Social Security wage bases for the last 35 years before a member reaches age 65.

In addition, a supplemental benefit is payable up to age 62 (and in some cases longer). The basic amount of the supplemental benefit is based on the primary Social Security benefit the member would have been entitled to if the member were 65 on the date of retirement. For members hired on or after July 1, 1976, this basic amount is equal to a percentage of the Social Security benefit. That percentage is determined by dividing the member's creditable service by 25. The exact amount of this benefit also depends on the member's age and Plan (see below). The benefit is then increased by 3%.

For Plan C and Plan D members, normal retirement benefits are calculated at 2.3% of average final compensation (highest consecutive three years). The benefit is then increased by 3%. No supplemental benefits are payable.

Plan A

Contribution Rate: 4% of base salary up to the maximum Social Security wage base plus 5.75% of base salary over the wage base.

Supplemental Benefit: If the member is less than age 55, no supplemental benefit is payable. From age 55 to 62, the full basic amount of the supplement is payable. After age 62, the benefit payable is any excess of the full basic amount which exceeds the member's actual earliest Social Security benefit payable.

Plan B

Contribution Rate: 7.08% of base salary up to the maximum Social Security wage base plus 8.83% of base salary over the wage base.

Supplemental Benefit: If the member is less than age 55, ½ of the basic amount of the supplemental benefit is payable. From age 55 to 62, the full basic amount of the supplement is payable. After age 62, the benefit payable is any excess of the full basic amount which exceeds the member's actual earliest Social Security benefit payable.

Plan C

Contribution Rate: 4% of creditable compensation.

Plan D

Contribution Rate: 7.08% of creditable compensation.

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FINANCIAL SECTION

STATEMENTS OF PLAN NET ASSETS as of June 30, 1999 and 1998

Assets	1999	1998
Equity in County's pooled cash and temporary investments	\$2,105,864	\$2,038,768
Accrued interest and dividends receivable	3,040,791	2,904,362
Investments, at fair value		
U.S. Government obligations	25,061,863	25,416,704
Asset-backed securities	110,954,153	82,280,116
Municipal bonds	409,563	5,294,822
Corporate bonds	97,614,190	117,945,274
Common and preferred stock	255,019,376	232,239,860
Mutual funds	105,422,899	81,775,678
Short-term investments	19,450,426	9,297,626
Cash collateral received under securities lending agreements	<u>44,923,323</u>	<u>45,088,182</u>
Total investments	<u>658,855,793</u>	<u>599,338,262</u>
 Total assets	 664,002,448	 604,281,392
 Liabilities		
Payable for collateral received under securities lending agreements	44,923,323	45,088,182
Accounts payable and accrued expenses	<u>634,825</u>	<u>607,358</u>
Total liabilities	<u>45,558,148</u>	<u>45,695,540</u>
 Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 20.)	 <u>\$618,444,300</u>	 <u>\$558,585,852</u>

See accompanying notes to financial statements.

FINANCIAL SECTION

STATEMENTS OF CHANGES IN PLAN NET ASSETS

For the Years Ended June 30, 1999 and 1998

Additions	1999	1998
Contributions		
Employer	\$15,645,845	\$16,565,155
Plan members	<u>5,680,758</u>	<u>5,118,104</u>
Total contributions	21,326,603	21,683,259
Investment income		
<i>From investment activities</i>		
Net appreciation in fair value of investments	37,253,484	60,599,206
Interest	14,709,114	13,577,377
Dividends	3,709,755	4,925,016
Other	<u>21,235</u>	<u>3,689</u>
Total income from investment activities	55,693,588	79,105,288
Less investment activity expenses		
Investment management fees	1,743,331	1,764,078
Investment custodial fees	118,559	132,704
Investment consultant fees	135,140	102,000
Allocated administrative expense	<u>75,900</u>	<u>77,189</u>
Total investment activity expenses	<u>2,072,930</u>	<u>2,075,971</u>
Net income from investment activities	53,620,658	77,029,317
<i>From securities lending activities</i>		
Securities lending income	2,563,399	3,071,675
Securities lending expenses		
Borrower rebates	2,242,494	2,809,847
Management fees	<u>112,328</u>	<u>96,885</u>
Total securities lending expenses	<u>2,354,822</u>	<u>2,906,732</u>
Net income from securities lending activities	<u>208,577</u>	<u>164,943</u>
Total net investment income	<u>53,829,235</u>	<u>77,194,260</u>
Total additions	75,155,838	98,877,519
Deductions		
Annuity benefits	9,317,650	7,555,702
Disability benefits	4,934,907	4,629,223
Survivor benefits	267,062	242,843
Refunds	625,970	622,530
Administrative expense	<u>151,801</u>	<u>154,379</u>
Total deductions	<u>15,297,390</u>	<u>13,204,677</u>
Net increase	59,858,448	85,672,842
Net assets held in trust for pension benefits		
Beginning of fiscal year	<u>558,585,852</u>	<u>472,913,010</u>
End of fiscal year	<u>\$618,444,300</u>	<u>\$558,585,852</u>
See accompanying notes to financial statements.		

FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 1999 and 1998

The Fairfax County Uniformed Retirement System ("System" or "plan") is considered part of the County of Fairfax, Virginia's ("County") financial reporting entity and is included in the County's general purpose financial statements as a pension trust fund. The accompanying financial statements present only the operations of the System in conformity with generally accepted accounting principles. They are not intended to present fairly the financial position and results of operations of the entire County.

A. Summary of Significant Accounting Policies

Basis of Accounting. The System's financial statements have been prepared under the accrual basis of accounting. Member and employer contributions to the plan are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due in accordance with the terms of the plan. The cost of administering the plan is paid by the System.

Method Used to Value Investments. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The System records investment purchases and sales as of trade date. These transactions are not finalized until settlement date, which occurs approximately three business days after the trade date. The amount of trade receivables and payables are not separately disclosed due to immateriality. Cash received as collateral on securities lending transactions and investments made with such cash are reported as assets along with a related liability for collateral received.

Equity in County's pooled cash and temporary investments. The System maintains its cash with the County, which invests cash and allocates interest earned, net of a management fee, on a daily basis to the System based on the System's average daily balance of equity in pooled cash. As of June 30, 1999 and 1998, the bank balance of the County's public deposits was either insured by the Federal Deposit Insurance Corporation or through the State Treasury Board pursuant to the provisions of the Security for Public Deposit Act.

B. Plan Description and Contribution Information

Membership. At July 1, 1998, the date of the latest actuarial valuation, membership in the System consisted of:

Retirees and beneficiaries receiving benefits	518
Terminated plan members entitled to but not yet receiving benefits	19
Active plan members	<u>1,544</u>
Total	<u>2,081</u>

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Plan Description. The System is a single-employer defined benefit pension plan of the County. The plan covers uniformed employees including non-clerical employees of the Fire and Rescue Department and Office of Sheriff, Park Police, Helicopter Pilots, Animal Wardens and Game Wardens who are not covered by other plans of the County or the Virginia Retirement System. Benefit provisions are established and may be amended by County ordinances. To be eligible for normal retirement an individual must meet the following criteria: (a) attain the age of 55 with six years of service, or (b) complete 25 years of service. The normal retirement benefit is calculated using average final compensation and years (or partial years) of service at date of termination. The plan provides that unused sick leave credit may be used in the calculation of average final compensation by projecting the final salary during the unused sick leave period. To be eligible for early retirement, employees must have 20 years of service. The benefit for early retirement is actuarially reduced and payable at early termination.

Annual cost-of-living adjustments are provided to retirees and beneficiaries equal to the lesser of 4 percent or the percentage increase in the Consumer Price Index for the Washington Consumer Metropolitan Service Area.

Contributions. The contribution requirements of System members are established and may be amended by County ordinances. Plan A members were given the opportunity to join Plan B as of July 1, 1981 and to enroll in Plan C as of April 1, 1997. From July 1, 1981, until March 31, 1997, all new hires were enrolled in Plan B. Plan B members were given the opportunity to enroll in Plan D as of April 1, 1997. From April 1, 1997, forward, all new hires are enrolled in Plan D. Plan A requires member contributions of 4 percent of compensation up to the Social Security wage base and 5.75 percent of compensation in excess of the wage base. Plan B requires member contributions of 7.08 percent of compensation up to the Social Security wage base and 8.83 percent of compensation in excess of the wage base. Plan C requires member contributions of 4 percent of compensation. Plan D requires contributions of 7.08 percent of compensation. The County is required to contribute at an actuarially determined rate; the rates for the fiscal years ended June 30, 1999 and 1998 were 19.90 percent and 22.18 percent of annual covered payroll, respectively.

C. Investments

The authority to establish the System is set forth in Section 51.1-800 *Code of Virginia* (Code). Section 51.1-803 of the Code authorizes the System to purchase investments *with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with the same aims. Such investments shall be diversified so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so.*

As permitted by the Code described above, the System invests in derivative instruments on a limited basis in accordance with Board of Trustees' policy. During the fiscal year, the System invested directly in various derivatives including asset-backed securities, collateralized mortgage obligations (CMOs), forward currency contracts, and floating rate securities. Investment managers are specifically prohibited from purchasing securities on margin or leverage.

The System entered into these investments either to increase earnings or to hedge against potential losses. These investments generally contain market risk resulting from fluctuations in interest and currency rates. The credit risk of these investments results from the creditworthiness of the counterparties to the contracts. An additional credit risk related to the asset-backed securities and

FINANCIAL SECTION

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

CMOs results from the creditworthiness of the related consumers or mortgagees. In addition, the System has indirect exposure to market and credit risk through its ownership interests in mutual funds which hold derivative financial instruments.

At June 30, 1999 and 1998, investments in derivatives, including related mutual funds, represented 17.3 and 14.3 percent of the total fair value of the System's portfolio. Throughout the fiscal year ended June 30, 1999, investments in derivatives ranged from 18.9 percent to 14.3 percent of the portfolio's fair value. Throughout the fiscal year ended June 30, 1998, investments in derivatives ranged from 7.6 percent to 17.8 percent of the portfolio's fair value.

The System does not have investments (other than U.S. government and U.S. government guaranteed obligations) in any one organization that represent 5 percent or more of net assets available for benefits. All investments, except for the mutual funds, short-term investment fund, and short-term collateral investment pool, are held by an unaffiliated custodian in the name of the System. Investment decisions for these assets are made by the Board of Trustees or investment managers selected by the Board.

Board of Trustees policies permit the System to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The System's custodian is the agent in lending the plan's domestic securities for collateral of 102 percent and international securities for collateral of 105 percent. The custodian receives cash, securities or irrevocable bank letters of credit as collateral. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in the lending agent's collective collateral investment pool, which at year end has a weighted average duration of 76 days and a weighted average maturity of 416 days. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of securities loans made by other plan entities that invest cash collateral in the investment pool, which the System cannot determine.

The System did not impose any restrictions during the period on the amounts of loans the lending agent made on its behalf, and the agent indemnifies the System by agreeing to purchase replacement securities, or return the cash collateral thereof, in the event a borrower fails to return loaned securities or pay distributions thereon. There were no such failures by any borrower during the fiscal year, nor were there any losses during the period resulting from a default of the borrower or lending agent.

Securities lent for securities, or irrevocable letters of credit collateral are classified in the following schedule of investments according to the category of the collateral received. Securities lent at year-end for cash collateral are unclassified as the cash collateral is invested in a collective collateral investment pool. At year end, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System.

As of June 30, 1999 and 1998 the market values of securities on loan are \$44,268,331 and \$54,564,373. Cash received as collateral and the related liabilities of \$44,923,323 as of June 30, 1999 and \$45,088,182 as of June 30, 1998 are shown on the Statements of Plan Net Assets. Securities received as collateral are not reported as assets since the System does not have the ability to pledge or sell the collateral securities absent borrower default.

The System's investments are categorized to give an indication of the level of risk assumed by the System at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

and unregistered investments for which the securities are held by a counterparty's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counterparty or its trust department or agent, but not in the System's name. All of the Systems's investments meet the criteria of Category 1, except investments in mutual funds, a short-term investment fund, a short-term collateral investment pool and those securities on loan for which the cash collateral is invested in the collateral investment pool. These investments by their nature are not required to be categorized.

A schedule of investments as of June 30, 1999 and 1998 follows:

Categorized investments

Short-term investments		
Corporate bonds	\$6,380,337	\$0
Asset-backed securities	<u>13,070,089</u>	<u>0</u>
Total short-term investments	19,450,426	0
U.S. Government obligations		
Not on securities loan	10,403,998	4,309,096
On securities loan for line of credit collateral	0	9,970,430
Asset-backed securities	110,954,153	82,280,116
Municipal bonds	409,563	5,294,822
Corporate bonds	93,707,393	107,524,775
Common and preferred stock		
Not on securities loan	229,315,706	209,203,594
On securities loan for securities collateral	<u>931,724</u>	<u>1,028,736</u>
Total categorized investments	465,172,963	419,611,569

Uncategorized investments

Mutual funds	105,422,899	81,775,678
Short-term investment fund	0	9,297,626
Securities lending short-term collateral investment pool	44,923,323	45,088,182
Investments held by broker dealers under securities loans with cash collateral:		
U.S. Government obligations	14,657,865	11,137,178
Corporate bonds	3,906,797	10,420,499
Common and preferred stock	<u>24,771,946</u>	<u>22,007,530</u>
Total uncategorized investments	193,682,830	179,726,693

Total investments	<u>\$658,855,793</u>	<u>\$599,338,262</u>
--------------------------	-----------------------------	-----------------------------

D. Income Taxes

The Internal Revenue Service issued a determination letter on February 23, 1995, which stated that the System and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and therefore are exempt from federal income taxes. In the opinion of the plan administrator, the System and its underlying trust have operated within the terms of the System and are qualified under the applicable provisions of the Internal Revenue Code.

FINANCIAL SECTION

REQUIRED SUPPLEMENTARY INFORMATION

Six-year historical trend information about the System is presented herewith as required supplementary information. This information is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/93	\$247,176,859	\$269,093,293	\$21,916,434	91.86%	\$56,460,788	38.82%
7/1/94	272,433,306	295,478,343	23,045,037	92.20%	59,224,826	38.91%
7/1/95	307,481,896	335,741,130	28,259,234	91.58%	64,457,370	43.84%
7/1/96	374,013,792	396,666,197	22,652,405	94.30%	69,133,414	32.77%
7/1/97	432,367,343	446,505,759	14,138,416	96.83%	71,957,919	19.65%
7/1/98	487,989,565	491,142,845	3,153,280	99.36%	74,685,099	4.22%

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the system. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the system.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
1994	\$ 12,810,330	100%
1995	13,381,350	100%
1996	14,580,237	100%
1997	16,111,378	100%
1998	16,565,155	100%
1999	15,645,845	100%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	July 1, 1998
Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	Weighted average of 2.0 years
Asset valuation method	3-Year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	4.1%-6.1%
*Includes inflation at	4.0%
Cost-of-living adjustments	3.0%

The actuarial assumptions used have been recommended by the actuary and adopted by the System's Board of Trustees based on the most recent review of the System's experience, completed in 1996.

The rate of employer contributions to the plan is composed of the normal cost, amortization of the unfunded actuarial liability and an allowance for administrative expenses. The normal cost is a level percent of pay cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial liability. The allowance for administrative expenses is based upon the plan's actual administrative expenses.

Investment gains have resulted in a decrease in the unfunded actuarial liability as of valuation date. The result is an employer contribution rate of 18.75 percent for the fiscal year ending June 30, 2000, a decrease of 1.15 percent from the fiscal year 1999 rate of 19.90 percent.

REQUIRED SUPPLEMENTARY INFORMATION – YEAR 2000

Introduction

The year 2000 problem, as generally understood, results from the fact that many computer programs and computer files utilize only two characters to designate the year (e.g. 97 for 1997). Although that worked very well and saved considerable space over the years, a two-digit representation for a year does not lend itself to date comparisons or date computations when one or more of the dates fall within the next millennium. The County has undertaken the Year 2000 activity for the System with regards to the functions performed by the County. The System is also reliant on investment managers, the custodian bank and the County's primary financial institution. The activity and progress with respect to resolving the Year 2000 problem is described below in stages, in accordance with the Governmental Accounting Standards Board Technical Bulletins No. 98-1 and No. 99-1:

Awareness Stage

The Retirement Administration Agency (Agency), which administers the System, was instructed to prepare quarterly reports to the County Board of Supervisors on the status of the year 2000 issue. The reports are to include an assessment of the possible effect of the Year 2000 problem on the local area network servers, personal computers and Agency-unique PC/LAN applications.

The major areas of concern for the Agency are:

1. Agency system software used for computing the amount of retirement benefits, maintaining the master file and contribution updates, the processing of benefit payments and the preparation of annual 1099 forms.
2. Personal computers and Agency-supported local area networks.
3. The County's central mainframe applications used by the Agency.
4. Non-County suppliers of critical services – investment managers, custodian bank.

Assessment Stage

The Agency system software was defined as mission-critical. Assessment of the system software was performed in 1997 and a remediation schedule was prepared. A schedule for testing of the Agency's personal computers and local area network servers was developed. The County defined the central mainframe applications as mission-critical. In early 1997 the assessment of mainframe applications was completed and remediation work was scheduled. The investment managers and custodian bank were asked to confirm that their operating and record-keeping systems would be effectively operating into the year 2000. The investment managers were also asked to explain the procedures that had been incorporated into their analysis to evaluate the year 2000 impact upon the companies in which the investment managers are investing on behalf of the System.

Remediation Stage

The Agency completed modifications to its system software in early 1999. As of June 30, 1999, the Agency has completed 100% of the necessary modifications to the personal computers and local area network. As of June 30, 1999, the County has completed 90% of the required modifications to its central mainframe applications. The Agency has received extensive reports and updates from all of the investment managers and the custodian bank regarding the steps they have taken in managing their internal systems and those of their vendors.

Validation/Testing Stage

The Agency performed testing of the modifications to its system software in conjunction with the modifications. The County has performed testing of the required modifications to its central mainframe applications. The Agency has completed testing of the modifications made to the personal computers and local area network. The Investment staff of the Agency is continuing to monitor the actions taken by the investment managers and custodian bank, as direct testing of the managers' and bank's systems by the Agency is not feasible. The completion of these stages is not a guarantee that computer systems and other electronic equipment will be Y2K compliant.

INVESTMENT SECTION

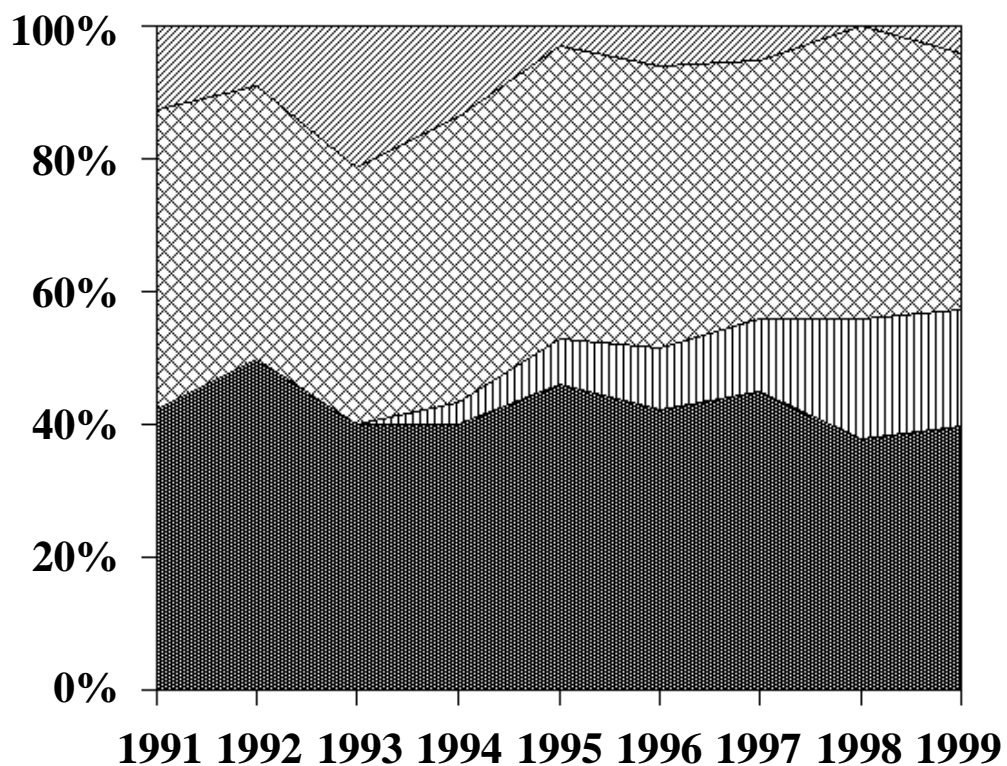
ASSET ALLOCATION BY CATEGORY AND INVESTMENT MANAGER

Asset Class Manager	Investment Style	Total Assets	% of Total Assets
<i>Domestic Equities</i>			
Credit Suisse	Active Large Cap Core	\$40,485,307	6.5%
Lazard Asset Management	Active Large Cap Value	96,779,958	15.6%
Barclays Global*	Active Enhanced S&P Index	90,629,605	14.6%
JL Kaplan	Active Small Cap Value	12,698,496	2.1%
ZAK Capital	Active Small Cap Growth	12,878,260	2.1%
<i>International Equities</i>			
Marathon, London	Active EAFE	71,795,523	11.6%
Lazard Asset Management	Active EAFE/EMF	40,836,849	6.6%
<i>Global Fixed Income</i>			
Credit Suisse	Active Core	104,433,602	16.9%
Payden & Rygel	Active Core	117,917,184	19.1%
<i>Domestic Fixed Income</i>			
Credit Suisse	Active Convertibles	28,502,373	4.6%
<i>Cash Held by County Treasurer</i>			
	Active Short Term	2,121,968	0.3%
Total Assets**		\$619,079,125	100.0%

* Pooled Fund

** Without Cash Collateral

Asset Allocation 1991 - 1999



INVESTMENT SECTION

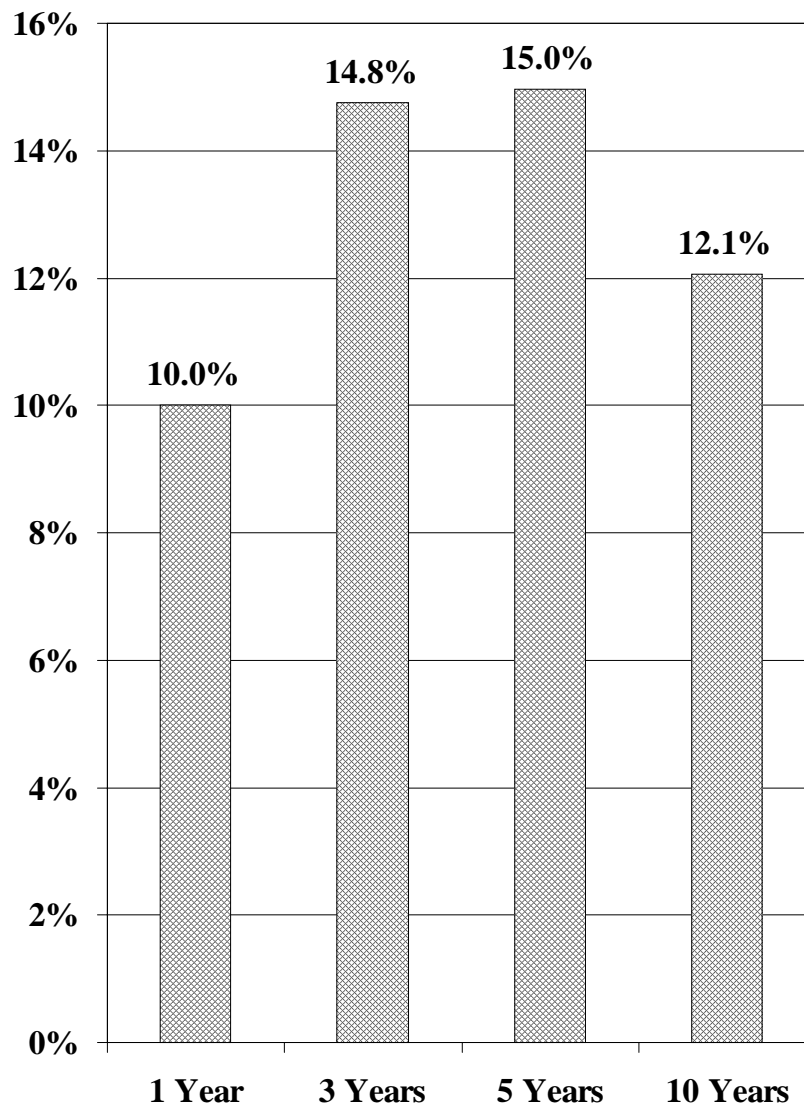
LIST OF LARGEST ASSETS HELD

(June 30, 1999)

Fifteen Largest Equity Holdings	Shares	Market Value
AT&T Corp.	99,362	\$ 5,545,629
Merck & Co., Inc.	68,247	\$ 5,034,849
General Electric Co.	43,832	\$ 4,953,045
Chase Manhattan Corp.	55,273	\$ 4,782,189
Bell Atlantic Corp.	71,923	\$ 4,701,934
Microsoft Corp.	51,979	\$ 4,687,811
Bristol-Myers Squibb Co.	64,580	\$ 4,548,827
Cisco Systems, Inc.	70,357	\$ 4,528,633
Exxon Corp.	57,291	\$ 4,418,556
Proctor & Gamble Co.	47,326	\$ 4,223,849
International Business Machines Corp.	30,650	\$ 3,961,459
Bank of America Corp.	53,757	\$ 3,941,033
Intel Corp.	65,200	\$ 3,879,403
Hewlett-Packard Co.	32,425	\$ 3,258,716
Philip Morris Companies, Inc.	79,468	\$ 3,193,600

Fifteen Largest Fixed Income Holdings	Interest Rate	Maturity Date	Market Value
Federal Home Loan Mortgage Corp. Discount Notes	0.000%	August 13, 1999	\$ 13,831,903
Government National Mortgage Assn. Single Family August 30-year TBA	6.500%	August, 2029	\$ 11,521,920
United States Treasury Bonds	8.000%	November 15, 2021	\$ 10,776,938
Federal National Mortgage Assn. Single Family July 30-year TBA	6.000%	July, 2029	\$ 10,211,061
Federal National Mortgage Assn. Single Family July 30-year TBA	8.000%	July, 2029	\$ 9,830,113
General Electric Capital Corp.	4.790%	July 22, 1999	\$ 7,000,000
Federal National Mortgage Assn. Single Family August 30-year TBA	7.500%	August, 2029	\$ 6,565,000
Federal National Mortgage Assn. Single Family August 30-year TBA	7.000%	August, 2029	\$ 6,412,640
Federal National Mortgage Assn. Single Family July 30-year TBA	7.000%	July, 2029	\$ 6,380,380
Federal National Mortgage Assn. Single Family August 30-year TBA	6.000%	August, 2029	\$ 6,006,016
Time Warner Entertainment Co., LP	8.375%	March 15, 2023	\$ 5,415,850
AMR Corp	9.000%	August 1, 2012	\$ 5,304,529
Government National Mortgage Assn. Single Family July 30-year TBA	6.500%	July, 2029	\$ 5,220,385
News America Holdings, Inc.	8.000%	October 17, 2016	\$ 5,167,623
Atlantis One Funding Corp.	4.910%	July 2, 1999	\$ 4,980,224

Compound Annual Return on Investment Portfolio





MILLIMAN & ROBERTSON, INC.

Actuaries & Consultants

Internationally WOODROW MILLIMAN

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Fax: 703/827-9266

October 14, 1999

Board of Trustees
Fairfax County Uniformed
Retirement System
10680 Main Street - Suite 280
Fairfax, VA 22030-3805

Dear Members of the Board:

At your request, we have performed our annual actuarial valuation of the Fairfax County Uniformed Retirement System as of July 1, 1998. The results of the valuation are contained in this report.

Funding Objective

The funding objective of the System is to establish contribution rates which, over time, will remain level as a percent of payroll. In order to achieve this, a contribution rate has been determined which will provide for current cost (i.e., normal cost expressed as a level percent of payroll) plus level percent of payroll amortizations of each layer of the unfunded liability over a 15 year period. This funding objective is currently being realized.

Assumptions

The actuarial assumptions used in this valuation have been recommended by the actuary and adopted by the Board of Trustees based upon the most recent review of the System's experience completed in 1996. We believe the assumptions used, in the aggregate, represent our best estimate of future experience of the plan.

While there were no changes in assumptions this year, there was a decision made by the Board to withhold a portion of the investment gains realized through the July 1, 1998 valuation date in order to absorb the known investment losses that occurred through the end of September.

The assumptions and methods used in performing this valuation meet the parameters set for disclosure presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

Reliance on Others

In preparing our report, we relied, without audit, on information (some oral and some in writing)

Albany, Atlanta, Boise, Boston, Chicago, Dallas, Denver, Hartford, Houston, Indianapolis, Irvine, Los Angeles, Milwaukee, Minneapolis, New York, Omaha, Philadelphia, Phoenix, Portland, ME, Portland, OR, St. Louis, Salt Lake City, San Diego, San Francisco, Seattle, Tampa, Washington, D.C., Bermuda, Tokyo
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Board of Trustees
Fairfax County Uniformed Retirement System
October 14, 1999
Page 2

supplied by the System's staff. This information includes, but is not limited to, statutory provisions, employee data, and financial information. We found the data to be reasonably consistent and comparable with data used in the prior valuation.

Supporting Schedules

We were responsible for all supporting schedules to be found in the Actuarial Section.

We were responsible for all years of the Schedule of Funding Progress, Schedule of Employer Contributions and Notes to Trend Data shown in the Financial Section.

Compliance with Code of Virginia §51.1-800

Code of Virginia §51.1-800 requires that the benefits provided a retiree at age 65 from a local retirement system equal or exceed two-thirds of the allowance to which the employee would be entitled under the provisions of the Virginia Retirement System (VRS). The Board of Trustees of the VRS is to determine whether a local system satisfies this condition, taking into account differences in member contributions between the local system and the VRS.

Although there is no formal procedure for making this comparison, we have compared the least valuable accrual rate under the Uniformed Plan to the most valuable accrual rate under the VRS, making adjustments for the fact that employee contributions are required in excess of the VRS 5% rate. The employer provided accrual rates do exceed $\frac{2}{3}$ of the employer provided accrual rates under the VRS plan.

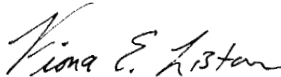
I certify that, to the best of my knowledge and understanding, the Fairfax County Uniformed Retirement System satisfies the requirements of the Code of Virginia §51.1-800.

Certification

On the basis of the foregoing, we certify that, to the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable Guides to Professional Conduct, Amplifying Opinions, and supporting Recommendations and Interpretations of the American Academy of Actuaries.

Respectfully submitted,

MILLIMAN & ROBERTSON, INC.



Fiona E. Liston, F.S.A.
Consulting Actuary

MILLIMAN & ROBERTSON, INC.

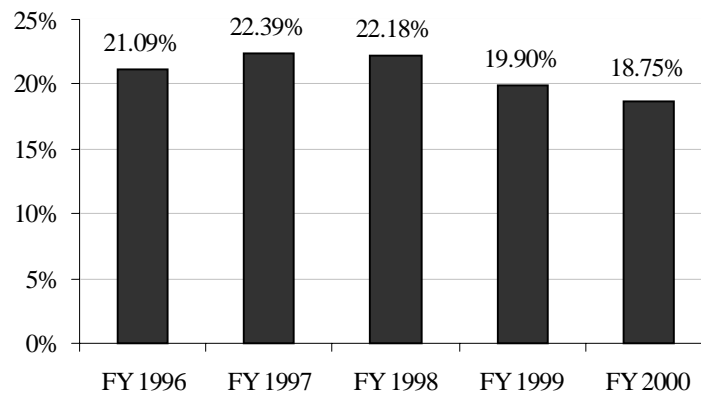
SUMMARY OF VALUATION RESULTS

A. Overview

This report presents the results of our July 1, 1998 actuarial valuation of the Fairfax County Uniformed Retirement System.

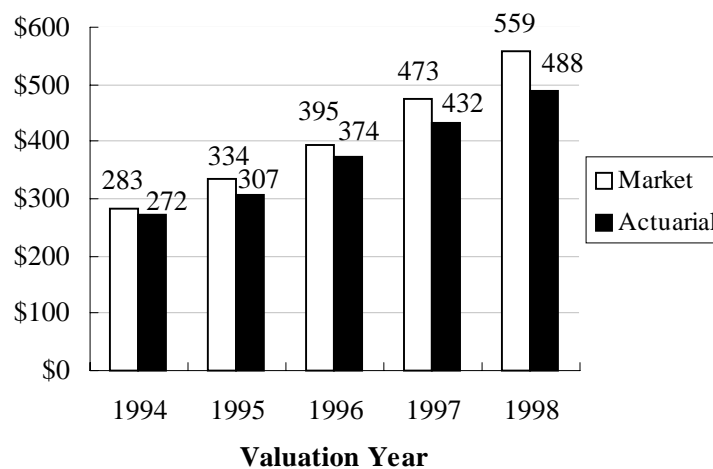
The major findings of the valuation are summarized in the following charts.

Employer Contribution Rates
(as % of Payroll)



There was a slight decrease in the employer contribution rate over the past year, primarily due to investment gains.

System Assets
(in Millions)

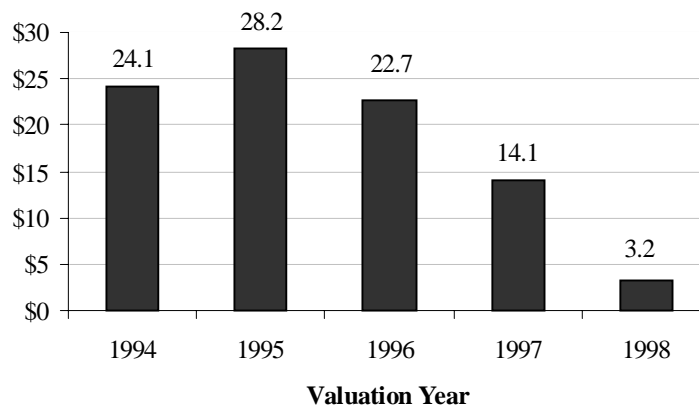


The System's assets have grown considerably in the recent past. The increase in the actuarial value was 13% over the past year and 79% since 1994.

ACTUARIAL SECTION

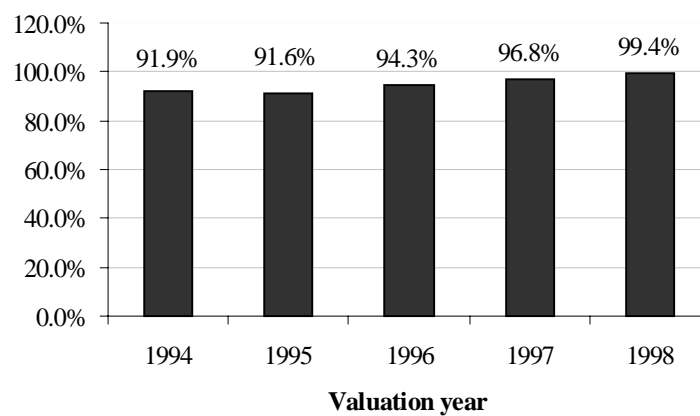
SUMMARY OF VALUATION RESULTS (Continued)

Unfunded Actuarial Liability (In Millions)



The unfunded actuarial liability decreased over the past year. This was primarily due to asset gains.

Funding Ratio



The ratio of actuarial assets to the actuarial accrued liability increased over the past year. This is the GASB #25 measure of funding progress.

SUMMARY OF VALUATION RESULTS (Continued)

B. Summary of Results

The following table compares the principal results from the 1997 and 1998 valuations.

FAIRFAX COUNTY SUPPLEMENTAL RETIREMENT SYSTEM SUMMARY OF PRINCIPAL RESULTS

1. Participant Data	<u>July 1, 1997</u>	<u>July 1, 1998</u>	<u>Percent Change</u>
Number of:			
Active Members	1,512	1,544	+2.1%
Retired Members and Beneficiaries	269	315	+17.1%
Disabled Members	198	203	+2.5%
Vested Former Members	15	19	+26.7%
Annual Salaries of Active Members	\$ 68,658,700	\$ 72,276,200	+5.3%
Annual Benefits for Retired and Disabled Members, and Beneficiaries (Excluding Supplemental Benefits)	\$ 10,339,204	\$ 12,185,553	+17.9%
2. Assets and Liabilities			
Total Actuarial Liability	\$ 446,505,759	\$ 491,142,845	+10.0%
Assets for Cost Purposes	\$ 432,367,343	\$ 487,989,565	+12.9%
Unfunded Actuarial Liability	\$ 14,138,416	\$ 3,153,280	-77.7%
3. Contribution Results <i>(as percent of payroll)</i>			
Employer Normal Cost Rate	16.31%	16.31%	
Unfunded Actuarial Liability Contribution	3.29%	2.14%	
Administrative Expenses	<u>0.30%</u>	<u>0.30%</u>	
Total Employer Contribution	19.90%	18.75%	

SUMMARY OF VALUATION RESULTS

(Continued)

C. Valuation Highlights

1. System Assets

As of July 1, 1998, the System had assets at market value of \$558.6 million, as compared to \$472.9 million as of July 1, 1997. The increase of \$85.7 million was attributable to the following:

- an increase of \$21.7 million due to employer and member contributions;
- a decrease of \$13.2 million due to payment of System benefits and expenses;
- an increase of \$77.2 million due to System investment experience (realized and unrealized).

When measured on an actuarial basis for contribution purposes (in order to dampen market fluctuations), System assets were \$488.0 million as of July 1, 1998, up from \$432.4 million as of July 1, 1997. For valuation purposes we capture the market value of assets at July 1 of each year. The 1998 stock market was near its all time high point by July 1, and had experienced a major correction by the end of the third quarter. There is a concern that the asset smoothing method in place would not be able to absorb a large drop in asset value such as would be caused by the continuation of a severe market correction. On the bases of sensitivity testing, the Board of Trustees has decided to hold back \$41.8 million from the market value in anticipation of such a correction.

Overall, the rate of return on System assets during the year was 16.2% on a market value basis, and 10.8% on an actuarial value basis.

2. System Liabilities

Two types of liabilities are presented in this report; actuarial liabilities and the liability for benefits accrued to date. Actuarial liabilities are developed and used for ongoing funding purposes and include a portion of future anticipated pay increases and service credit. This measure is also used as the measurement of actuarial accrued liability required to be disclosed under Government Accounting Standards Board Statement No. 25.

The liability for benefits accrued to date measures the present value of all future System benefits based on service to date. In this report, we present a measure of the liability for benefits accrued which conforms with Statement No. 35 of the Financial Accounting Standards Board.

As of July 1, 1998, the System actuarial liabilities were \$491.2 million, as compared to \$446.5 million as of July 1, 1997. Measured against System assets (actuarial value) of \$488.0 million there are System unfunded actuarial liabilities of \$3.2 million. This compares to \$14.1 million of unfunded actuarial liabilities as of July 1, 1997.

Viewed another way, the ratio of assets to actuarial liabilities increased from 96.8% (July 1, 1997) to 99.4% (July 1, 1998).

With respect to the liabilities for benefits accrued as of the valuation date, this valuation shows a liability of \$411.0 million as compared to \$372.6 million as of July 1, 1997.

SUMMARY OF VALUATION RESULTS

(Continued)

Since these liabilities are based upon a current "snapshot" of members' pay and service, the common approach is to compare this liability with the market (i.e. current) value of System assets. This comparison as of July 1, 1998 shows that the ratio of System assets to liabilities accrued to date has increased from 126.9% (July 1, 1997) to 135.9% (July 1, 1998).

3. System Contributions

Contributions to the System include a "normal cost rate" which, along with member contributions, covers the portion of projected liabilities on account of service of members during the year following the valuation date.

In addition, an unfunded actuarial liability contribution is made which, together with assets on hand, will fund the portion of projected liabilities on account of service rendered prior to the valuation date. Finally, a provision for System administrative expenses is made by adding 0.30% of member payroll to the total contribution.

The employer normal cost rate is 16.31% of member payroll, and the unfunded actuarial liability rate is 2.14% of payroll. Together with the administrative expense rate, this results in a total employer contribution rate as of July 1, 1998, of 18.75% of payroll compared with a July 1, 1997 rate of 19.90% of payroll.

The decrease in the employer contribution rate of 1.15% of payroll is attributable to the following:

Employer contribution rate (July 1, 1997 Valuation; 1999 FY)	19.90%
Decrease due to investment gains	(1.68)
Increase due to actuarial experience	0.34
Increase due to ad-hoc COLA	<u>0.19</u>
Employer contribution rate (July 1, 1998 Valuation; 2000 FY)	18.75%

4. Membership

The total active membership of the Uniformed Retirement System has increased from 1,512 as of July 1, 1997 to 1,544 as of July 1, 1998. The number of retired members and their beneficiaries has increased from 269 as of July 1, 1997 to 315 on July 1, 1998. The number of disabled members receiving benefits has increased from 198 to 203, and the number of former members with vested rights increased from 15 to 19.

In total, the membership of the System, both active and inactive, has increased 4.4% from 1,994 members as of July 1, 1997 to 2,081 members as of July 1, 1998.

ACTUARIAL SECTION

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

1. Funding Method

The funding method used for this valuation is the “aggregate accrual modification of the entry age normal cost method.” Under this method, the employer contribution has three components -- the normal cost, the payment toward the unfunded actuarial liability, and the expense payment.

The normal cost is a level percent of pay cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The level percent developed is called the normal cost rate and the product of that rate and payroll is the normal cost.

The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and funds accumulated as of the same date is referred to as the unfunded actuarial liability.

The expense rate is added to cover the System’s administrative expenses.

2. Actuarial Value of Assets

For purposes of determining the County contribution to the plan we use an actuarial value of assets. The asset adjustment method dampens the volatility in asset values that could occur because of fluctuations in market conditions. Use of an asset smoothing method is consistent with the long term nature of the actuarial valuation process.

In determining the actuarial value of assets, we calculate an expected actuarial value based on cash flow for the year and imputed returns at the actuarial assumption. This expected value is compared to the market value and one-third of the difference is added to the preliminary actuarial value to arrive at the final actuarial value.

3. Changes Since Last Valuation

None.

A detailed listing of all actuarial assumptions follows:

ACTUARIAL ASSUMPTIONS AND METHODS

Long Term Assumptions Used to Determine System Costs and Liabilities

1. Demographic Assumptions:

a. Mortality:

Unisex Pension - 94 Mortality Table Annual Deaths Per 1000 Members*

<u>Age</u>	<u>Male Deaths</u>	<u>Female Deaths</u>	<u>Age</u>	<u>Male Deaths</u>	<u>Female Deaths</u>
20	1	0	65	16	9
25	1	0	70	26	15
30	1	0	75	40	24
35	1	1	80	67	42
40	1	1	85	105	73
45	2	1	90	164	125
50	3	2	95	251	200
55	5	2	100	341	297
60	9	5	105	441	415

*5% of deaths are assumed to be service-connected.

b. Termination of Employment (Prior to Normal Retirement Eligibility):

Annual Terminations per 1000 Members

<u>Age</u>	<u>Terminations</u>
20	60
25	50
30	30
35	15
40	13
45	10
50	8

It is assumed that members who terminated before normal or early retirement age elect to receive a refund of contributions instead of vested benefits.

ACTUARIAL SECTION

ACTUARIAL ASSUMPTIONS AND METHODS (Continued)

c. Disability:

Annual Disabilities per 1,000 Members*

<u>Age</u>	<u>Male & Female</u>
20	2
25	3
30	4
35	5
40	8
45	13
50	21
55	30
60	30

Annual Deaths Per 1,000 Disabled Members

<u>Age</u>	<u>Male</u>	<u>Female</u>
40	14	9
45	14	10
50	15	11
55	17	13
60	20	15
65	26	18
70	37	23
75	55	35
80	82	55

*Disabilities are assumed to be all service-connected. Of these, 30% are assumed to receive Social Security benefits and 38% are assumed to receive Workers Compensation benefits.

d. Retirement:

It is assumed that members all retire when they are first eligible for unreduced benefits (age 55 with 6 years of service, or completion of 25 years of service).

In addition, if members are not eligible for unreduced benefits, but are eligible for early retirement (20 years of service), it is assumed that they will retire at the following rates:

<u>Age</u>	<u>Annual Early Retirement Per 1000 Eligible</u>
40	60
45	50
50	40

ACTUARIAL ASSUMPTIONS AND METHODS (Continued)

e. Merit/Seniority Salary Increase (in addition to across-the-board increase):

<u>Age</u>	<u>Merit/Seniority Increase</u>
20	2.13%
25	1.84%
30	1.55%
35	1.26%
40	0.97%
45	0.67%
50	0.38%
55	0.09%

f. Family Composition:

For purposes of valuing the pre-retirement death benefit, an assumption concerning how many employees are married is needed. The assumption used in this valuation is that 80% of employees are married at death while active and that the female spouse is 3 years younger than the male spouse.

g. Sick Leave Credit:

It is assumed that retirees, deferred vested terminations, and deceased members receive an additional 3% of service credit due to sick leave.

ACTUARIAL SECTION

ACTUARIAL ASSUMPTIONS AND METHODS (Continued)

2. Economic Assumptions

- a. **Investment Return:** 7.50% compound per annum.
- b. **Cost-of-Living Benefit Increases:** 3.00% compound per annum.
(Based on assumed CPI increase of 4%.)
- c. **Increase in the Social Security Wage Base:** 4.00% compound per annum.
- d. **Across-the-Board Increase in County Salaries:** 4.00% compound per annum.
- e. **Total Payroll Increase (for amortization):** 4.00% compound per annum.
- f. **Administrative Expenses:** 0.30% of payroll.

3. Changes Since Last Valuation

None.

ANALYSIS OF FINANCIAL EXPERIENCE

**Gains and Loss in Accrued Liability During Years Ended June 30
Resulting from Differences Between Assumed Experience and Actual Experience**

Type of Activity	Gain (or Loss) for Year ending June 30,			
	1995	1996	1997	1998
Investment Income	\$2,333,360	\$9,650,431	\$20,272,834	\$14,398,143
Combined Liability Experience	(538,411)	1,661,539	(690,075)	(2,963,074)
Gain (or Loss) During Year from Financial Experience	\$1,794,949	\$11,311,970	\$19,582,759	\$11,435,069
Non-Recurring Items	(6,706,450)	(7,236,152)	(13,547,224)	(1,625,843)
Composite Gain (or Loss) During Year	(\$4,911,501)	\$4,075,818	\$6,035,535	\$9,809,226

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

Year Ended June 30	Added to Rolls		Removed From Rolls		On Rolls @ Yr. End		% Increase Allowance	Average Allowance
	No.	Annual Allowance	No.	Annual Allowance	No.	Annual Allowance		
1994					377	7,494,079		19,878
1995	32	1,389,319	16	248,354	393	8,635,044	15.22%	21,972
1996	38	1,208,415	6	49,718	425	9,793,741	13.42%	23,044
1997 ¹	47	1,843,855	5	77,022	467	11,560,574	18.04%	24,755
1998	57	1,977,416	6	495,441	518	13,042,549	12.82%	25,179

¹End of year allowance for 1997 is being restated.
Other elements were changed to agree with new balance.

ACTUARIAL SECTION

SOLVENCY TEST

Aggregate Accrued Liabilities For

Valuation Date	(1) Active Member Contributions	(2) Retirees Vested Terms, Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets		
					(1)	(2)	(3)
7/1/93	\$ 34,290,116	\$ 91,928,370	\$ 142,874,807	\$ 247,176,859	100%	100%	85%
7/1/94	41,540,093	105,398,821	148,539,429	272,433,306	100%	100%	84%
7/1/95	42,566,327	116,855,930	176,318,873	307,481,896	100%	100%	84%
7/1/96	46,621,095	137,359,734	212,685,368	374,013,792	100%	100%	89%
7/1/97	50,230,152	161,103,135	235,172,472	432,367,343	100%	100%	94%
7/1/98	53,335,936	186,017,535	251,789,374	487,989,565	100%	100%	99%

SCHEDULE OF ADDITIONS BY SOURCE AND DEDUCTIONS BY TYPE

ADDITIONS

Fiscal Year	Plan Member Contributions	Employer Contributions	Employer Contributions % of Covered Payroll	Net Investment Income	Total Revenues
1994	\$ 4,121,494	\$ 12,810,330	21.63%	\$ 3,804,223 ¹	\$ 20,736,047
1995	4,383,919	13,381,350	20.76%	42,743,085 ¹	60,508,354
1996	4,810,588	14,580,237	21.09%	50,767,472	70,158,297
1997	4,966,687	16,111,378	22.39%	68,557,537	89,635,602
1998	5,118,104	16,565,155	22.18%	77,194,260	98,877,519
1999	5,680,758	15,645,845	19.90%	53,829,235	75,155,838

DEDUCTIONS

Fiscal Year	Benefit Payments	Refunds of Contributions	Administrative Expenses	Total Expenses
1994	\$ 6,984,416	\$ 245,601	\$ 244,141 ²	\$ 7,474,158
1995	7,877,548	397,549	294,493 ²	8,569,590
1996	9,229,198	294,480	179,403	9,703,081
1997	10,807,664	440,064	163,173	11,410,901
1998	12,427,768	622,530	154,379	13,204,677
1999	14,519,619	625,920	151,801	15,297,390

¹The net investment income for 1994-95 has been restated from amounts previously reported to recognize investment expenses and the change in unrealized gain occurring each year.

²Administrative expenses for 1994-95 are net of an expense allocation to investment expense. Investment expense has been deducted in the computation of Net Investment Income.

STATISTICAL SECTION

SCHEDULE OF BENEFIT PAYMENTS BY TYPE

Fiscal Year Ended June 30,	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
1994	\$ 3,874,193	\$ 2,821,265	\$ 100,115	\$ 188,843	\$ 6,984,416
1995	4,451,328	3,120,949	96,968	208,303	7,877,548
1996	5,269,967	3,629,357	132,906	196,968	9,229,198
1997	6,262,391	4,206,961	131,564	206,748	10,807,664
1998	7,555,702	4,449,490	179,733	242,843	12,427,768
1999	9,317,650	4,731,370	203,537	267,062	14,519,619

SCHEDULE OF RETIRED MEMBERS BY BENEFIT TYPE

Fiscal Year Ended June 30	Annuity	Service-Connected Disability	Ordinary Disability	Survivor	Total
1994	179	162	8	14	363
1995	204	168	8	13	393
1996	220	181	10	14	425
1997	254	187	11	15	467
1998	298	189	14	17	518
1999	347	188	15	17	567

SCHEDULE OF AVERAGE MONTHLY BENEFIT AMOUNTS

Fiscal Year Ended June 30	Annuity (including supplement)	Service-Connected Disability	Ordinary Disability	Survivor	Average (basic benefit only)
1994	\$ 2,038	\$ 1,482	\$ 983	\$ 956	\$ 1,663
1995	2,159	1,670	1,091	1,204	1,831
1996	2,242	1,806	1,037	1,192	1,990
1997	2,407	1,952	1,048	1,233	2,155
1998	2,521	2,036	1,194	1,233	2,266
1999	2,856	2,183	1,186	1,188	2,541